



DRAFT

**FINANCE AND AUDIT SUBCOMMITTEE MEETING MINUTES
AUGUST 12, 2014**

**CalEPA Building
1001 I Street, Second Floor Training Room
Sacramento, CA 95814**

The Finance and Audit Subcommittee of the California High-Speed Rail Authority (Authority) Board met on August 12, 2014 at 8:00am in the Training Room of the CalEPA Building.

Committee Members Present:

Mr. Michael Rossi, Chair
Mr. Tom Richards

Authority Staff Present:

Mr. Jeff Morales, CEO
Mr. Dennis Trujillo, Chief Deputy
Mr. Russell Fong, CFO
Mr. Frank Vacca, Chief Program Manager
Mr. Scott Jarvis, Assistant Chief Program Manager
Ms. Ofelia Alcantara, Design and Construction Manager
Mr. Jon Tapping, Risk Manager
Ms. Paula Rivera, Audits
Ms. Alicia Lauron, Audits

Minutes prepared in the order items were presented during the meeting

Agenda Item – Minutes from June 2014

Approved without comment.

Agenda Item – Action Items from Previous Finance and Audit Committee Meeting

Financial Integrity State Manager's Accountability Act (FISMA) Report requested at June meeting.
Provided July 18, 2014.

Agenda Item - Financial Reports – Russell Fong

Questions asked and answered. Issues discussed included:

- Accounts Payable Aging Report – Mr. Rossi asked what could be done about the disputed payables over 121 days. In the private sector they would be written off or placed in a reserve. Mr. Fong will attach a memo on the next set of reports explaining the issue and drop the amounts from future reports. Mr. Richards inquired about the outstanding balances. Mr. Fong explained that they were due to shutdown of the federal invoice system in May. However, \$30M in invoices have been approved since the date of the report.
- Cash Management – Mr. Rossi would like to see the projections identified on the last page of the report.
- YTD Budget – Mr. Rossi noted that for the year end reports, it was hard to know what the year-to date

percentage was representing ... conservative spending due to court cases, inexperience in budgeting, slow hiring. Mr. Fong explained that the answer was due to all the reasons identified. In addition, Mr. Rossi noted that the projections are not relevant due to year end. Mr. Rossi also identified a couple of minor technical corrections. Regarding the vacancy rate, Mr. Rossi noted that the average for the Authority is 18.4% and asked what the target vacancy rate is. Mr. Morales explained that the vacancy rate was high this past year to new positions and a target would be 5-7%. Mr. Fong added that the Authority's vacancy rate for existing positions is 9%. Mr. Rossi would like to see what is standard for other entities that operate in this same arena and see the Authority be better in every category. Mr. Rossi went on to say that an initial criticism was that we would never be able to get the staff on board to accomplish our goals. He applauds our efforts.

- Projected Expenditures. Mr. Rossi inquired if there were any major changes forecast in the next twelve months and if the money would be spent. Mr. Fong identified that no major changes were anticipated and that the funds would be expended.
- Contracts and Expenditures Report. Mr. Rossi inquired about a legal services contract. Mr. Fellenz identified that the contract was for a legal firm retained in case there are congressional activities. Mr. Trujillo added that the contracts were time and materials with a not-to-exceed contract amount. Mr. Rossi would like to see a column on the report to identify estimated expenditures against the total. Mr. Richards added that he would like to see something similar such as the percentage of work completed. Mr. Richards also requested a description of the City of Fresno contract on Page 2.
- Summary of Financial Reports. Mr. Rossi would like the report to show, in addition to the percent budget expended by program what the percentages represent. From a management perspective, is there cause for alarm?

Agenda Item – Audits Division Update – Paula Rivera

Questions asked and answered. Issues discussed included:

- Audit Plan Status – Mr. Rossi about the reports that had been issued draft. Ms. Rivera explained that draft reports were issued to the program under audit to review for factual accuracy and provide a response to the findings. The final report is issued to the Committee. Mr. Rossi would like a copy of draft reports for the Committee, as well as final reports that incorporate the auditee response. Mr. Rossi also inquired about the Progress Report audit, if it was to be completed in March 2014. Ms. Rivera explained that the Authority's revised process was to be implemented in March. However, due to changes in the progress report format and process, this audit will not be performed as originally scoped and is not included in the current year's audit plan. Mr. Richards requested that the status report also include a brief summary of the findings.
- Finding Summary. Mr. Rossi requested an index at the bottom to identify what the risk levels represent.

Agenda Item – CP 1 Project Update – Scott Jarvis

Questions asked and answered. Issues discussed included:

- Caltrans SR 99 Project Monthly Status - Mr. Jarvis identified that the status report will be transitioning into a revised format similar to the CP1 Performance Metrics Report. Mr. Richards confirmed that the reports provided were the prior version and the revised format as requested.
- CP1 Performance Metrics – Mr. Rossi asked to have the report include actual information. Mr. Jarvis explained that they had held off utilizing actual data until there were more payments to the contractor so the report would have more meaning.

Current Issues

- Mr. Morales identified that the Authority received notice this morning from the Surface Transportation Board that they issued construction authority for Fresno to Bakersfield.
- Mr. Tapping provided a summary of the CP 1 Quantitative Risk Analysis update process. They will be reporting the results next month. No new significant risks. No significant changes expected. Mr. Rossi requested for issues that are trending negatively, that the proposed action to address the risk

be provided to the Committee. Mr. Morales noted that one of the biggest risks identified is right-of-way acquisition. There have been extensive efforts, both in terms of internal procedures and utilizing contractors to revise the baseline schedule based on the availability of right-of-way to move forward and lessen the impact. Mr. Richards inquired about the acquisition of parcels. Mr. Jarvis explained that the acceptance rate by property owners wasn't what was anticipated, and the resolution of necessity process is lengthy. Mr. Morales identified that the Caltrans acceptance rate was utilized for planning purposes, as 24-25% having to go through the resolution of necessity process. Mr. Rossi inquired as to what the current rate we are experiencing. Mr. Morales identified that the initial rate is approximately 50%, however that is common. The Authority is confident that the high rate is due to the status of the litigation. They know that attorneys have been advising property owners not to accept our offer. Mr. Rossi inquired why the Authority didn't expect a 50% acceptance rate, with all the publicity and other situations surrounding the project. Mr. Morales identified that the 24% rate is the expected rate over the life of the project.

- Mr. Tapping also identified that the procurement for CP 2-3 is advancing, so they are developing the risk-informed contingency analysis, similar to what was performed for CP 1. It will probably be completed in October.
- Mr. Tapping is reviewing reports and other published documents regarding the Bay Bridge to see if the Authority's processes need to be revised as part of the quality process.

Closed session with the auditor at 9:50 am.

The meeting ended at 10:00 am.